

# Trust fund balance

## Why is it growing so fast?

**State trust funds usually grow following a recession**

**Washington's trust fund largest in nation**

**ESD contracted with Dr. Vroman to examine rapid growth**

**Economy responsible for half of growth**

### Background

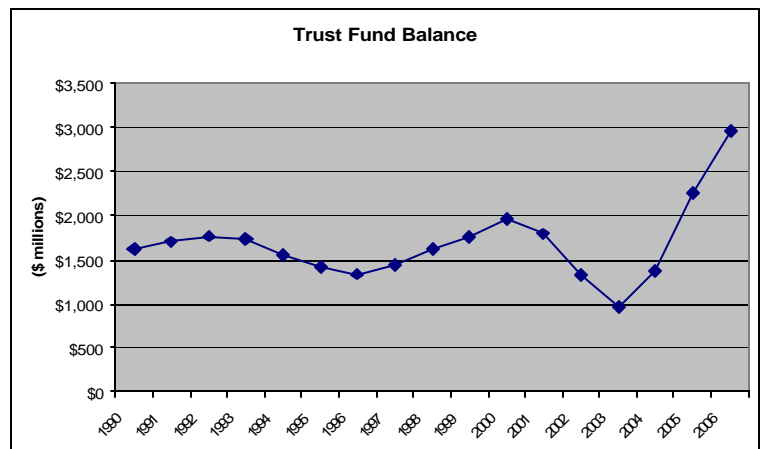
Employers pay unemployment-insurance taxes to cover the cost of benefits paid to unemployed workers. Taxes are deposited in the state's Unemployment Insurance Trust Fund, where interest accrues, and benefits are paid out of that fund. The system is designed to be forward-funded. If taxes exceed benefit payments, that money remains in the trust fund to cover benefits during periods of high unemployment.

As the economy recovers after a recession, unemployment claims decrease. At the same time, tax rates tend to increase because they are calculated based on benefits paid in previous four years, including those during the recession. The result is a decrease in benefit payments and an increase in taxes, which leads to an increase in the trust fund balance.

### Washington's trust fund

From 2004 to 2006, Washington's trust fund balance grew by almost \$1.6 billion, from \$1.4 billion to about \$3 billion – the largest in the nation.

The U.S. Department of Labor recommends that states maintain enough money in their trust funds to cover 12 months of benefits to cushion the effects of a recession<sup>1</sup>. Washington's 2006 balance is equivalent to more than 18 months of benefits.



In late-2006, the department contracted with Dr. Wayne Vroman of *The Urban Institute* to examine the growth of the trust fund and explain why it is increasing so dramatically. Following is a summary of Dr. Vroman's conclusions. His complete report is available online at [www.studies.go2ui.com](http://www.studies.go2ui.com).

### Why the trust fund grew

Dr. Vroman concluded that the economy and changes in law and policy contributed to the rapid growth of Washington's trust fund. In 2005 and 2006, he estimates that:

- **The economic recovery accounted for about half of the overall growth** of the trust fund over the two years, or about \$800 million. Trust fund growth is expected after a recession. Dr. Vroman noted that the new experience-rated tax system is more responsive to the economy than the previous tax system.

<sup>1</sup> U.S. Department of Labor Takes Action to Protect Integrity of Unemployment Insurance Trust Funds, December 3, 2002, [www.dol.gov/opa/media/press/OPA2002672.htm](http://www.dol.gov/opa/media/press/OPA2002672.htm).

**Law and policy changes account for other half of growth**

**Bigger balance leads to higher interest payments**

- **The new social tax added about \$500 million.** Employers paid about \$900 million in social taxes in 2005 and 2006, while the socialized costs for those two years were about \$400 million. The lag between social taxes and socialized costs accounted for part of this difference, rates are based on costs in the previous year. Because the minimum social tax rate is 0.5 percent, Dr. Vroman notes that this discrepancy is likely to continue in future years.
- **A lower reciprocity rate accounted for \$200-225 million** over the two years. The reciprocity rate is the percentage of unemployed workers who collect benefits in a given week. Dr. Vroman estimates that stricter eligibility and decreased duration of benefits led to about 7,000 fewer people collecting benefits each week and thereby fewer benefit payments<sup>2</sup>.
- **The new calculation for weekly benefits saved \$80-100 million** in 2005 and 2006. This was a result of lower benefit payments.
- **Increased interest payments added another \$80 million.** About half of this interest is attributable to the economy and about half is due to legislative changes.

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<sup>2</sup> In 2005 and 2006, an average of 48,000 people collected benefits each week. Using Dr. Vroman's estimate of 7,000 fewer claimants each week, the average would have been about 55,000 without law and policy changes.